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HEARINGS
BEFORE THE
SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
EIGHTIETH CONGRESS
FIRST SESSION
ON
H.R. 4269

E X T R A C T

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GERMAN CARTELS

Senator O'MAHONEY. Do you care to make any comment on the reports which are constantly coming to this country that the reestablishment of the old German cartel system is apparently being permitted? Is there any truth to that statement?

General DRAPER. No, sir, I would say there is not. In the early part of this year an anticartel law was finally passed in the American zone, and a similar one in the British zone, after many months of endeavoring to get a quadrupartite law for all of Germany. That decartelization law takes its thesis, its principles, from the Sherman Antitrust Act in this country and goes somewhat beyond that act in requiring that any concern that has more than 10,000 employees have a special dispensation, or else it has to keep within that limit.

But the decartelization branch under that law have been getting questionnaires from all German firms since the law was passed, a German decartelization commission has been set up, both on a bizonal basis in our zone and the British zone, and the progress of the law is going along to break that up.

The actual fact is that the decartelization program, because of the physical break-up of Germany into four parts in a sense happened at the end of the war, so far as the breaking up into four parts is concerned, at least. All of the foreign cartel arrangements that were part of the German system went out of business at the end of the war because Germany was occupied and had no contact, nor has it had practically any contact since with the concerns outside with which she had these arrangements. Certainly I have seen no evidence of any revival of cartels in Germany.

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Senator O'MAHONEY. Under the system which is followed in the American zone and the British zone, what degree of supervision is exercised by either the American or British authorities over the rehabilitation of German industry?

General DRAPER. The German agencies have been set up in the two zones, those that have been contemplated for all of Germany by the Potsdam Agreement, and which we were not successful in getting agreed to by the Russians and French, and therefore late last year and officially the first of this year the five agencies were set up for the two zones, food and agriculture and economics which includes industry and export trade, finance, communications, and transportation. Those German agencies in economics, which includes the problems you are speaking of, have set up in the British zone a mining agency. A group of British and American officers are in constant charge of the situation. The directives of the various agencies have to be approved by them. If they are not within the agreed policy, they are referred to Berlin where a panel consisting of Sir Cecil Weir and myself pass on them. If we cannot reach agreement we pass it on to General Clay and General Robertson, but there is constant supervision of all actions of the German agencies.

Senator O'MAHONEY. Do I understand that the members of the German agencies of which you have been speaking are German citizens?

General DRAPER. Yes, sir.

Senator O'MAHONEY. To what extent are they the same individuals who had leadership in the German industries prior to the end of the fighting?

General DRAPER. A very large part of the German industrial leaders were eliminated on denazification grounds. But other than that, they would still be the same.

Senator O'MAHONEY. Then, do I understand that it has been the policy to screen the nazi leaders from any position of authority over the rebuilding of the German industry?

General DRAPER. Very definitely.

Senator O'MAHONEY. Does the policy recognize the importance to all of Europe of reviving the German economy?

General DRAPER. That policy, sir, was directed to us, of course, from our Government, and I cannot say as to what was taken into consideration in arriving at the policy.

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Senator O'MAHONEY. Let me ask then what you think the effect of it is; do you believe that the German industry, the German economy, should be actively rehabilitated as part of our program?

General DRAPER. I very definitely do, sir. I believe that no recovery of western Europe can extend to any great degree until the German economy does to a considerable degree revive.

Senator O'MAHONEY. And can that be accomplished without reviving either the cartel theories which antedated the rise of Hitler and which were emphasized during his regime, or the Nazi philosophy of the old industrial leaders?

General DRAPER. I believe it can, sir. The German industry did develop along cartel lines. There is no question but that some of the industrial leaders who have been thrown out were able, efficient people. A new group are being trained, and will have to develop, who can handle German industry. But I feel confident that German industry can revive without developing the great cartels that were a war danger.

Senator O'MAHONEY. Would it be too inconvenient for you to include in your report as requested by the chairman of this committee a summary of the activities which have been carried on for the decartelization, denazification of Germany, and the revival of the German economy?

General DRAPER. I will be glad to incorporate that in my remarks.

(The information is as follows:)

The committee has asked me to outline briefly the present status of decartelization and denazification as well as the attitude of military government in Germany toward economic and industrial recovery.

1. Decartelization: In accordance with the directive from our Government, and the agreement at Potsdam to break up and prevent undue concentrations of economic power in Germany, efforts were made over a period of more than a year to reach quadripartite agreement on a decartelization law for Germany as a whole. These efforts were unsuccessful and in the fall of 1946 General Clay decided to enact a decartelization law for the American zone. With the signing in December 1946 of the bizonal agreement joining the economies of the British and American zones it became evident that a common decartelization policy in the two zones was imperative. Negotiations with British military government resulted in the enactment of almost identical decartelization laws in the two zones in February of this year. A copy of the law promulgated in the American zone is attached for the committee's information.

The principles of this decartelization law are based on the Sherman Antitrust Act and make illegal any agreements which limit production, fix prices or assign markets in restraint of competition. The law bans dangerous concentrations of economic power and establishes a prima facie case against any company having more than 10,000 employees.

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Under the decartelization laws of the two zones a bizonal German Decartelization Commission has been set up, as well as German decartelization agencies in the various Laender (States), with the general supervision of enforcement resting in the decartelization branches of American and British military governments.

The actual division of Germany into four zones and the industrial prostration incident to the end of the war had actually reduced to a great degree the effectiveness and power of the former German cartels. The largest of these cartels was I. G. Farben which was seized by American military government in July 1945. Since that date it has been broken up into a number of so-called economic units with separate trustees appointed to operate each of them.

The international cartel arrangements and agreements on which much of the cartel power formerly was based became inoperative with the occupation of Germany and the cutting off of the German population from contact and communication with the rest of the world. The new decartelization law, however, was needed to prevent the old cartel organizations from reviving as German industry begins to recover from the effects of the war. The law was intended to chart a course for competitive enterprise with smaller units and to prevent dangerous concentrations of economic power which formerly existed in Germany and which became ready tools to carry out Hitler's totalitarian and warlike purposes.

2. Denazification: Under the directives from our Government and the agreement reached at Potsdam concerning the elimination from important positions in German public and private life of active Nazis, United States military government enacted law No. 8 in the early months of the occupation. This law, in effect, prevented members of the Nazi Party or other closely affiliated organizations from holding positions other than ordinary labor. The magnitude of the task of bringing to trial the huge numbers of party members and others involved in the denazification processes resulted in a decision to turn over to the German governments in the several Laender (states) and to German courts the task of trying and punishing those who had been active in the Nazi movement. German denazification laws were accordingly passed by the Landtags in the various Laender in the American zone and special German court tribunals have been set up and each month are trying many thousands of those charged with being Nazis or Nazi collaborators.

Every effort is being made to expedite the denazification process by the creation of additional tribunals and by administrative pressure in order that the denazification process may be completed at an early date. In the meantime, certain amnesties have been granted by the military governor which have considerably reduced the number of unimportant persons otherwise subject to trial.

3. Military government in Germany is convinced that only through the economic recovery of the bizonal area (American and British zones) can western Germany become self-supporting and be able to maintain a tolerable

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standard of living for the German people. Germany is unable to produce sufficient food to feed her population. This has always been true historically but the situation has become much more critical as a result of the loss to Russia and Poland of 25 percent of Germany's arable land, without any reduction in the size of her population. At the same time, through lack of fertilizer and proper seed, and as a general result of the war, Germany's agricultural production in her remaining territory is at least 25 percent below the prewar comparable production.

Every effort is being made to improve this situation but huge imports of food will be necessary for years to come to prevent actual starvation. Only by recovery of Germany's industry and the shipment as exports of large amounts of industrial products to foreign countries can Germany's export proceeds be developed to pay for this needed food. Only through large German exports can the present burden on the American taxpayer be reduced and eventually eliminated.

4. From the point of view of general European recovery, the revival of Germany's peaceful industries is also of vital importance. Germany's neighbors before the war received huge amounts of machinery, chemicals, dyestuffs, and other industrial products. There is no other source of supply for many of these products and only through German production can they be made available to the other European countries. Germany also was the greatest single market in Europe buying the agricultural and other products of Europe. Only by revival of German exports and reestablishment of her buying power can Germany be in a position again to buy Dutch vegetables, Swedish iron ore, and the products of Italian agriculture.

5. Military government in Germany accordingly considers that the revival of Germany industry and its general economy within limits necessary to prevent the revival of a dangerous war potential is necessary in the interests of European recovery, and also to gradually remove the present burden on the United States and Great Britain for the food needed to keep Germany from starving.

The recent directive received from the War Department outlines the attitude of our Government toward the occupation and contains the following policy statement:

"An orderly and prosperous Europe requires the economic contributions of a stable and productive Germany as well as the necessary restraints to insure that Germany is not allowed to revive its destructive militarism."

The entire directive is enclosed for the information of the committee and of the Senate.

6. One of the principal obstacles which now prevents German revival is the division of Germany into several occupation zones with differing political and economic philosophies. At present, zone borders represent

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almost airtight boundaries which prevent the free flow of goods, persons, and ideas from one zone to another. The economic unification of the British and American zones specifically stated that the offer to unify was actually open to the French and Russian zones in order to achieve as soon as possible the economic unification of all Germany as agreed at Potsdam. This offer is still open to the other occupying powers.

7. Finally, I should like to thank the committee for its courtesy, and stress again the importance which General Clay places on approval of the entire amount requested by the War Department for Germany, which he considers vital to the successful carrying out of his mission in Germany.

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